HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

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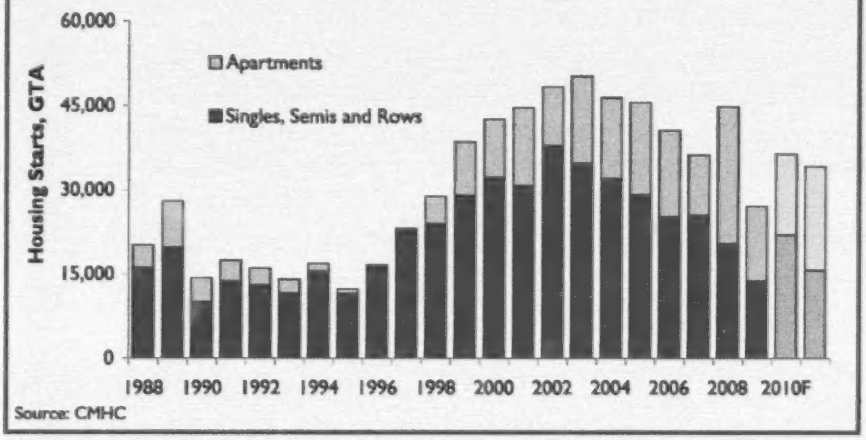
Market at a Glance

- MLS® sales in the GTA will hit a record high 101,000 this year. Average prices for 2010 will increase to $444,000. Both sales and price growth will begin to show significant moderation in the second half of this year and early next year.
- New home sales will jump to 42,000 in 2010 thanks to a 50 per cent increase in high rise sales. Housing starts will rise by 34 per cent this year to reach 36,400 units on strong single-detached construction.
- The unemployment rate in Toronto will fall slightly to an average of nine per cent this year. Employment gains will push the unemployment rate down further next year, providing support for homeownership demand.

Figure 1

Housing Starts Boosted By Low Rise Construction This Year



Source: CMHC

[1] The forecasts included in this document are based on information available as of April 16, 2010.

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Resale Market

Nearing a Turning Point

The resale market in the Greater Toronto Area (GTA) will put an exclamation point on 2010 with a record level of activity this year. Sales will reach six digits for the first time and price growth will be well above the historical average. This momentum, however, is expected to wane in the second half of the year. In fact, the market will look quite different by 2011 as sales levels converge back to their longer-term average and prices show little movement. The era of rock-bottom mortgage rates is coming to an end and the red hot GTA housing market will begin to lose its steam.

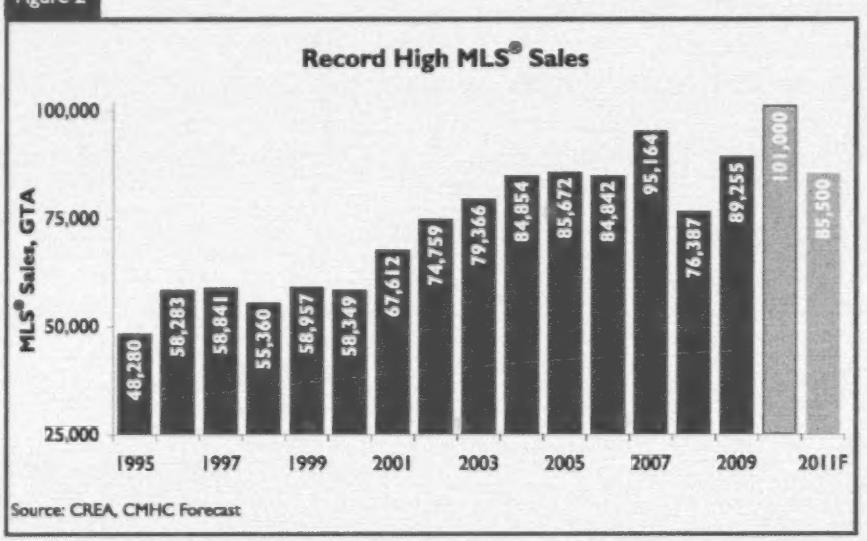
A full year of record-low borrowing costs has made first-time buyers out of tens of thousands of renters and parents' basement dwellers in the GTA. However, the primary source of stimulus fuelling this increase in homeownership is already beginning to fade. Five-year mortgage rates are on the move and will be a full percentage point higher by the end of the year. Combining higher rates with the new reality of average prices well above $400,000 will make the transition to homeownership more expensive. The erosion of affordability will cause delay for many first-time buyers, who have proactively accelerated their purchasing decisions and propped up sales temporarily.

Home sales in the GTA, however, are not expected to decline dramatically and will converge to the 10-year average in 2011. More jobs, stronger income growth and higher net migration will provide support for the market (see Local Economy Section). Furthermore, demand from current homeowners is expected to pick up some of the slack left by first-time buyers. Owners feel the timing is right to make a move as prices for their current home climb to new highs and financing costs for their next purchase still remain low. Also, price appreciation for detached homes in some desirable areas in the GTA hasn't been as strong as the rest of the market. A higher presence of move-up buyers will further increase the appeal of established neighbourhoods, which should see above-average price growth in the coming years due to their fixed level of supply and relatively low level of turnover. With move-up buyers looking to enter the high end and down-sizing baby boomers looking for less maintenance and to liquidate assets for retirement, a high level of new listings will be a theme over the next couple years.

Investors are also expected to be active in listings their condominiums — approximately 17,000 high rise units will be completed this year with an additional 16,000 coming on stream in 2011. Those who purchased at pre-construction sales centres a couple years back will realize their completed units have gone up in value by about 20 percent. Research undertaken by CMHC reveals that approximately 20 per cent of the condominium units registered in 2009 were listed for sale. It is likely that this share will grow as investors look to capitalize on the recent run-up in prices. Expect up to 10,000 newly completed condominiums to be put on the market over the next couple years. The added supply will lead to softer price growth for high rise units relative to low rise homes.

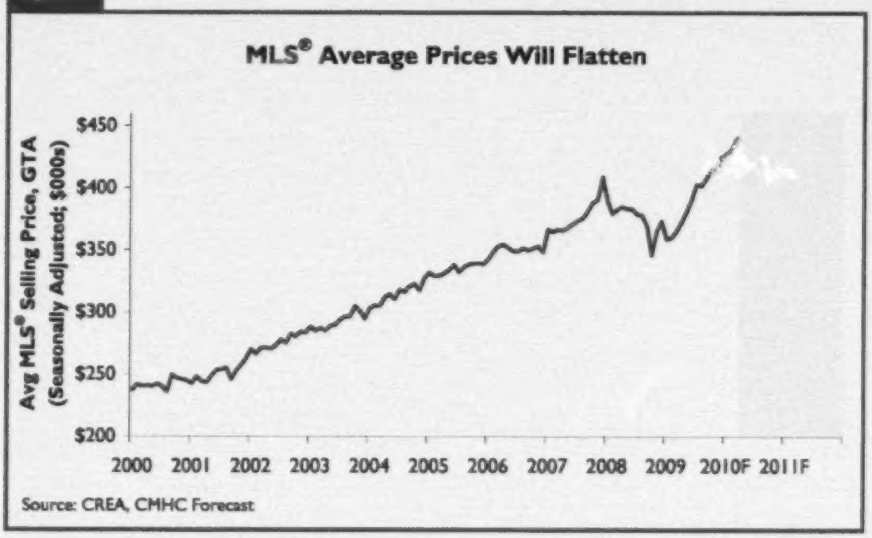
Existing owners on the move and listings from some condo investors will provide buyers with more selection at a time when overall demand is moderating. With fewer buyers competing for more homes, bidding wars will become less common and prices will face little upward pressure. There is a risk that prices could

Figure 2



Source: CREA, CMHC Forecast

Figure 3



come down some in late 2010/early 2011. However, any declines would be minimal and short-lived. In fact it is quite difficult to call a decline in house prices that lasts longer than six months in Toronto as prices have recorded annual increases in each of the past 14 years. That streak is expected to increase to 16 years in 2011 with a balanced market producing price growth of less than two percent. Prices can be expected to remain fairly flat over the next few years to allow income levels to catch up.

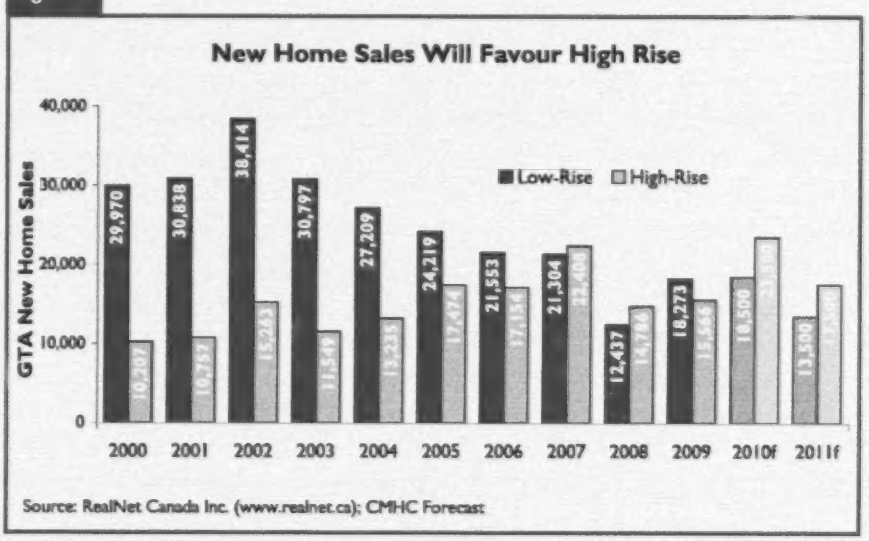
New Home Market

The Future is 'Up'

A calmer buying environment in the resale market will lead fewer purchasers into new home sales centres. Total new home sales will trend lower in the second half of the year, particularly for singles as the HST sets in, but will nonetheless register a banner year for 2010. High rise units will take back the majority share of new home purchases this year with a record-breaking 23,500 sales. The 18,500 low rise sales will provide a boost for housing starts in 2010, but single-detached homes will soon become a drag for overall housing starts in the GTA. The construction industry will rely more on high rise development next year thanks to recent condo sales centre activity.

Although sales have heated up, high rise starts have yet to materialize. The difficult sales and construction financing environment lasting through most of last year will weigh on the number of projects started this year — total high rise starts will remain at the decade average of 14,000 units. All signs point to a pick up in starts in the second half of 2010 and into 2011. Lenders are making credit more available and projects that opened sales offices back in late 2007 and early 2008 have hit their pre-construction sales targets. Ground-breaking ceremonies are beginning at sites across the city and a ready-for-construction backlog of at least 10,000 units should be cleared by year end. The upward trend will continue in 2011 thanks to sales levels hitting new highs in late 2009 and the first half of 2010 (typical sale-to-start time lag for high rise projects is approximately 18 months). Also, as the large volume of units currently under construction

Figure 4



finish up over the next couple years, more labour, financing and construction cranes will be available to start new projects. High rise starts will rise by close to 30 per cent next year with the potential for further gains in the years ahead. Healthy unsold inventory levels will support more project launches and demand will remain stable as affordability in the GTA declines and land constraints continue to favour high density development. Expect high rise cranes to appear in 905 areas such as North Oakville, downtown Mississauga, Vaughan Metropolitan Centre and Markham Centre.

Unlike the high rise market, better times for low rise construction appear to be in the past. The upward trend for singles beginning in the second half of 2009 will be short-lived and the longer-term decline that started back in 2003 will resume. A 60 per cent increase in detached starts in 2010 will be matched by an equivalent reduction in 2011. The "pull-forward" effect from buyers and builders looking to close on homes before the HST is introduced will result in some let down in the latter part of the year. Furthermore, interest rate increases will no doubt impact affordability and demand for the most expensive houses, and new singles in the GTA definitely fit the bill — prices will average $600,000 this year. But perhaps the bigger story weighing on the outlook for single detached construction relates to the scarcity of available land. Over the past seven years the number of available units at construction sites has been cut in half, resulting in the same trend for sales and starts. Greenbelt boundaries and Provincial housing density targets are making low rise development less feasible in the GTA. As well, single detached sites are typically located outside of the built-up boundary, which can require extensive infrastructure development. Single detached project sites will continue to come online, however at this time, less than 5,000 units are ready to build according to RealNet Canada Inc. Since a developer cannot sell what they do not have, single-detached starts will remain limited and the supply squeeze will continue to push prices up. Row homes, which are conducive to infill development and more affordable than singles, will take on their greatest share of low rise housing starts next year with 30 per cent.

Local Economy

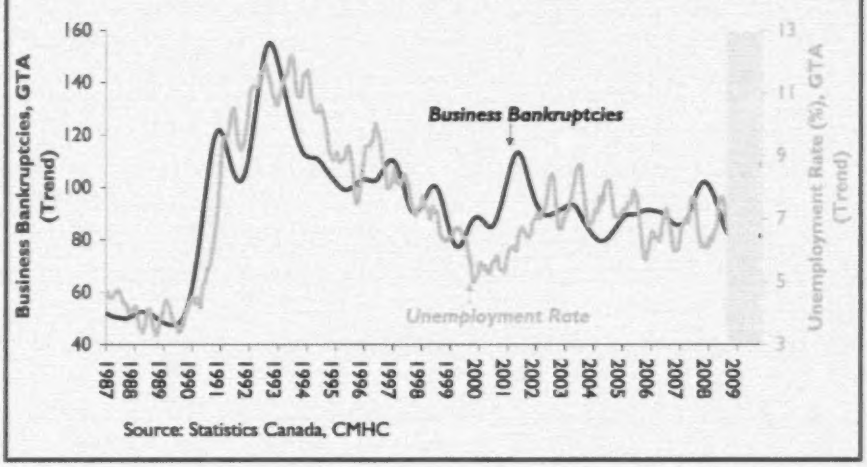
Quick Recovery for Employment

The attention paid towards the potential impact of rising interest rates on affordability and home sales tends to overshadow favourable developments that will occur in the broader economy. Employment in Toronto will rise by 1.5 per cent in 2010 and wages will grow by 2.5 percent — pretty big numbers for the first year out of a recession. Following the downturn in 1990-1991, it took until 1995 for the job market to add positions. So what have companies done differently this time around?

In a word, businesses have become "leaner". Over the past two decades Corporate Canada has undergone a significant process of deleveraging. The debt-to-equity ratio for enterprises is at a record low level of just over 50 per cent, compared to 100 per cent in the early 1990s. When corporate profits took a big hit back then, bankruptcies spiked and close to 160,000 jobs were lost in Toronto over a span of nearly five years. Today's more conservative business sector with high levels of cash allowed for a quick recovery that never saw bankruptcies rise above the long-term trend. As a result, employment in Toronto will quickly return to the pre-recession level in the second half of this year before reaching new highs in 2011.

Figure 5

Low Bankruptcies to Help Lower Unemployment



Source: Statistics Canada, CMHC

The nature and timing of the latest economic downturn has also allowed for a relatively quick recovery for the job market. In the early 1990s, economic output declined for a longer period of time and became weaker as the recession progressed. As a result, businesses were slower to lay off workers and the tail end of the downturn cast a dark shadow on the labour market for some time. The recent recession, which lasted just three quarters, saw the weakest period of growth in the first part during late 2008/early 2009. Recognizing that profits were sliding fast, companies quickly cut jobs, enabling them to maintain healthy balance sheets. And as the economy began to turn around in the second half of last year, businesses were in a much better position to re-hire.

Even the troubled manufacturing sector is in a better position to add labour now that production levels are increasing. In fact, low inventory levels and improving sales will mean the manufacturing industry will be a driving force for employment growth this year, particularly as the real estate market cools off.

More employment opportunities in the GTA will attract a higher level of immigration and lead fewer people to leave the area to work in other provinces. The boost in population will provide support for both homeownership and rental demand.

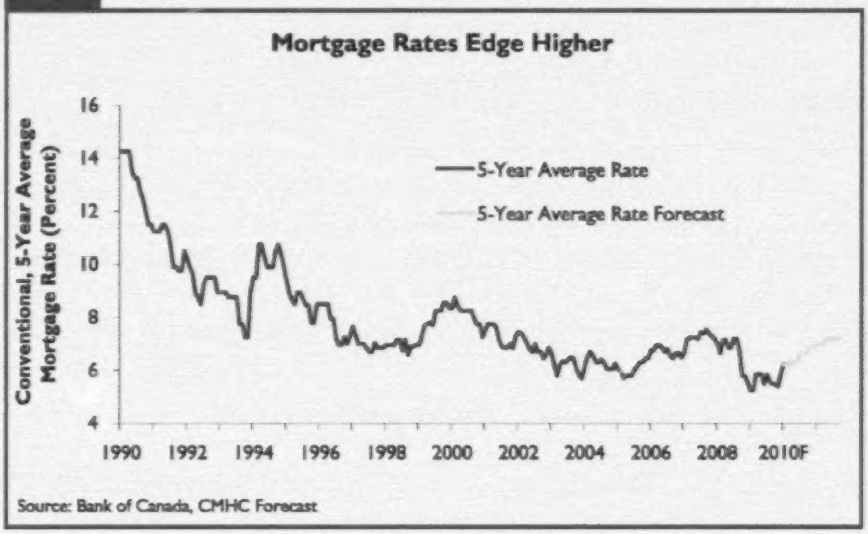
Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Figure 6



Source: Bank of Canada, CMHC Forecast

Forecast Summary Greater Toronto Area Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	95,164	76,387	89,255	101,000	13.2	85,500	-15.3
MLS® New Listings	155,093	163,169	135,000	178,500	32.2	172,000	-3.6
MLS® Average Price ($)	377,029	379,943	396,154	444,400	12.2	452,000	1.7
New Home Market							
Starts – Total (Greater Toronto Area)	**36,230**	**44,810**	**27,108**	**36,400**	**34**	**34,200**	**-6.0**
Single-Detached	16,639	12,757	8,722	14,150	62.2	8,700	-38.5
Multiples	19,591	32,053	18,386	22,250	21	25,500	14.6
Semi-Detached	2,920	2,450	2,086	2,550	22.2	2,300	-9.8
Row/Townhouse	5,926	5,260	2,965	5,300	78.8	4,700	-11.3
Apartments	10,745	24,343	13,335	14,400	8.0	18,500	28.5
Starts - Total (Toronto CMA)	33,293	42,212	25,949	34,400	32.6	32,600	-5.2
Starts - Total (Oshawa CMA)	2,389	1,987	980	1,744	78.0	1,544	-11.5
New Home Average Price ($):							
Single-Detached	494,211	521,760	563,802	603,000	7.0	618,000	2.5
New Home Median Price ($):							
Single-Detached	429,900	461,900	484,900	514,000	6.0	534,000	3.9
New Housing Price Index (1997=100) (Toronto-Oshawa)	2.7	3.5	-0.1	3.7		1.8	
Rental Market							
October Vacancy Rate (%)	3.2	2.0	3.1	3.4	0.3	2.9	-0.5
Two-bedroom Average Rent (October) ($)	1,061	1,095	1,096	1,104		1,117	
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.21	5.56	1.33
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	2,866	2,923	2,891	2,933	1.5	2,996	2.1
Employment Growth (%)	2.3	2.0	-1.1	1.5		2.1	
Unemployment rate (%)	6.8	6.9	9.5	9.0	-0.45	8.4	-0.60
Net Migration [1]	63,102	58,419	60,000	63,000	5.0	65,500	4.0%

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2009 migration data is forecasted

Forecast Summary Oshawa CMA Spring 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	10,223	8,794	9,330	10,000	7.2	9,000	-10.0
MLS® New Listings	17,444	18,570	15,109	19,400	28.4	18,400	-5.2
MLS® Average Price ($)	269,971	273,984	278,504	296,000	6.3	300,000	1.4
New Home Market							
Starts:							
Single-Detached	1,747	1,500	836	1,400	67.5	1,150	-17.9
Multiples	642	487	144	344	138.9	394	14.5
Starts - Total	2,389	1,987	980	1,744	78.0	1,544	-11.5
Rental Market							
October Vacancy Rate (%)	3.7	4.2	4.2	4.2	0.0	3.8	-0.4
Two-bedroom Average Rent (October) ($)	887	889	900	917	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.2	5.56	1.3
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.6	7.06	0.9
Annual Employment Level	181.5	186.1	179.5	181.5	1.1	184.7	1.8
Employment Growth (%)	2.4	2.5	-3.5	1.1	-	1.8	-
Unemployment rate (%)	6.2	7.2	9.0	9.7	0.7	9.3	-0.4

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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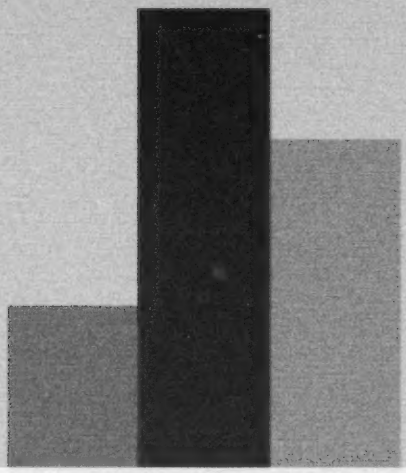

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